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SCHOOL OF GOVERNMENT

U. S. NAVY GRADUATE COMPTROLLERSHIP COURSE

# THE NAVY STOCK FUND

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## PREFACE

On my first encounter with the term "Naval Stock Fund" I inquired as to its meaning. I was perfunctorily advised that it was akin to the "Naval Stock Account" and was based on the revolving fund principle. My next interrogatory was directed at finding out about this revolving fund principle. The impatient retort was that "it was a fund that just went around and around and was, therefore, self sustaining." This sounded so closely allied to perpetual motion, I judged that it must be a good thing. I therefore resolved to find out more about it when the opportunity presented itself.

Over a period of several years with occasional exposure to the Naval Stock Fund I have learned that it has been with us for over 60 years and that it is, day by day, increasing in prominence as a device for improved supply management. The fund concept is gaining greater stature with each budget year.

With the unswerving determination to place increased emphasis on sound management practices in government, more specifically in budgeting, finance, and accounting the revolving fund technique is thriving. In view of this impetus, a better understanding of the Navy Stock Fund would appear to be a worthy objective of this paper.

Appreciation is expressed for the willing advice furnished by Commander W. T. MacKinnon of the Stock Finance Division, Bureau of Supplies and Accounts, Navy Department. Further advice of Commander C. E. Maddock of the Navy Comptroller's Office and Commander H. H. Hunt of the Aviation Supply Division, Bureau of Supplies and Accounts is gratefully acknowledged.

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# CHAPTER I

## INTRODUCTION

Picture a small residential community forty miles from the nearest city. Our community consists of thirty homes within walking distance of a newly established power plant, the owner of the homes and employer of the family providers. Each family is plagued with the incessant problem of traversing the distance to the city for the purpose of reprovisioning. At first the tedious trips are made weekly, then bi-weekly, and finally monthly. Certain economic factors should be noted. Time consuming and expensive trips, allocation of limited home storage space to bulk storage, constant threat of spoilage of foodstuffs, and large single expenditures of money are the lot of these people. Because of the size of the purchases certain extravagancy and inflated home inventories are the natural consequences. It becomes more and more difficult for each family to apportion their limited money supply for family needs, to maintain proper inventory levels, and to properly allocate storage space.

In its second year of operation an expansion of the company plant is accompanied by construction of additional housing units and a doubling of the population. Thus additional employees are subject to the provisioning problems.

Soon the plant experiences poor efficiency, high sick leave rates, absenteeism, accelerated employee turnover rates, low morale, and a general attitude of disatisfaction. Management traces the principal cause of these undesirable conditions to the hardships endured by the employees in the problems incident to maintenance of an adequate supply of stores in their homes.

To correct the condition of employee disatisfaction immediate action is taken through the conversion of a small company warehouse into a general store. To finance the store's operation, the sum of $5,000 is transferred from the company Cash Account to a newly created Store Fund. A storekeeper is given the job of operating the general store with authority to draw on the Store Fund as necessary to maintain an adequate stock position. Charging this fund, he builds up an initial invertory which is taken up on his books in a Purchases Account. As sales are made to members of the community, proceeds, collected daily, are taken up in the Store Fund. The Store Fund provides a continuous means of replenishing stock or the Purchases Account.

Because the company store buys stock in wholesale lots and sells at cost, plus an allowance for handling and loss, the benefit of the large saving is transferred to company employees. Furthermore, the community members are relieved of tremendous burdens. They can plan to shop daily or bi-weekly with the comforting knowledge that they will have little transportation, storage, or inventory problem at home.

What we have done is to establish a revolving fund. The basic community conditions are in essence not unlike the atmosphere which motivated the founding of the Navy Stock Fund. We might look at the Store Fund as being analagous to the Navy Stock Fund and the Purchases Account as being analagous to the Navy Stock Account.

This simile is perhaps an elementary and oversimplified approach for those already familiar with the revolving fund concept, nevertheless for the unindoctrinated it should serve to unravel some of the mystery which may have shrouded the Navy Stock Fund. The point is that the revolving fund principle is not much more than the application of a business operation with which we come in contact every day and which is similar to the one developed above.

Throughout this paper the intent will be to obtain a more thorough understanding of the Navy Stock Fund. Relative to the vast wealth of historical information available, limited emphasis will be devoted to historical growth of the Navy Stock Fund, however some of the historical highlights are significant in lending clarity and justification to todays existence and method of operation of the fund. Chapter II will be devoted to the objective of selecting these historical hallmarks.

With the historical facts well in mind, the emphasis will be shifted to today's Navy Stock Fund, its purpose, definition, and composition, its financial aspects, its operation and an evaluation of its success. This done, perhaps some suggested areas for improvement will have became prominent enough for mention.

## CHAPTER II

## HISTORICAL GROWTH

A wealth of information is available on the conception and development of stock fund theory and principles in the Navy. For the most part this information is purely of historical interest. In tracing the history, however, certain stages become prominent with respect to the modern thinking which governs the operation of stock funds. The importance in growth of stock funds in the Navy is of paramount significance in that the initial Department of Defense guidance in stock fund operation was patterned after the operation of the Naval Stock Fund, as the present Navy Stock Fund was previously called. This fact is substantiated by Assistant Secretary of Defense (Comptroller) W. J. McNeil's testimony before Preparedness Subcommittee Number 3 of the Committee on Armed Services.[1] Accordingly, historical reference will be limited to the hallmarks in stock fund development in the Navy or those highlights particularly important in light of their influence on the currently operating Navy Stock Fund.

### General Account of Advances

As early as 1878 the need for some sort of a clearing house for naval supplies was recognized. At that time the General Account of Advances was created. The General Account of Advances consisted of the sum total of all Navy appropriations. As such it was created at the beginning of each fiscal year and its use was discontinued at the end of each fiscal year. When the appropriations were made for the ensuing year the account again became available for use.

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[1] U. S. Congress, Senate, Preparedness Subcommittee No. 3 of the Committee on Armed Services, Hearings, Implementation of Title IV, National Security Act of 1947, as Amended, 83rd Cong., 1st Sess., Nov. 2-4 1953, p. 126.

In operation, the purchase of materials resulted in a direct charge to the General Account of Advances. Upon issue of the material the account received credit, and the specific appropriation financing the agency drawing the material was charged for the acquisition cost. Thus the funds made a complete circuit but total purchases were limited to total annual Navy appropriations, and therefore the circuit was not repetitious nor did it extend from year to year. Such application of the fund principle might be termed "annual revolving fund."

Eight separate Navy bureaus used the General Account of Advances without advantage of central coordination. There were, therefore, eight annual revolving fund orbits. Each of the eight bureaus maintained autonomous and independent control with respect to purchase, accounting, inventory and issue. The outgrowth of this logistical independence was uneconomical and inefficient overlapping and duplication of functions and large stocks of idle inventories. In short, every bureau was in the supply business.

At its best such a condition did not epitomize a well-administered and effective supply system. However, the resulting inefficiency which must certainly have existed appeared not to have deleterious effect on the operation of the canvas and wood navy. For the most part, ships were built and adequately maintained by private yards. Supply problems were not too complicated and, more often than not, were the responsibility of those yards. With the appearance of power-driven ironclads, however, complications were introduced which forced action to correct the unwieldy and unresponsive supply systems.

## General Storekeepers

The first remedial action came in 1886 through the abolition of bureau supply departments and the assignment of a "general storekeeper" at each naval activity. The general storekeeper was responsible for procurement, storage, and issue of all naval stores. Requirements submitted to the general storekeeper

served as his guide in initiating procurements. Thus, coordination of supply services was progressing.

However, the various departments at each naval activity were generally suspicious and distrustful of this fellow. The storekeeper was frequently accused of not ordering stated requirements. He was charged with misplacement of materials or of issuing stated requirments to a department other than the requesting department. The consequence was overstatement of requirements for insurance purposes. Inflated inventories and hoarding became the order of the day. The failure of the system might also have been attributable to a large part by the lack of proper supply records. Unquestionably a good deal of the most useful and important information such as location and ownership of material was filed in the memory of the general storekeeper.

## Act of June 30, 1890[2]

To counter the inflated inventory movement occasioned by the shortcomings of the general storekeeper system, the Act of June 30, 1890 was enacted. It required adoption of a common property policy as follows:

> All supplies purchased with moneys appropriated by the Act shall be deemed to be purchased for the Navy and not for any Bureau thereof, and these supplies, together with all supplies on hand, shall be arranged, classified, consolidated, and catalogued, and issued for consumption or use, under such regulations as the Secretary of the Navy may prescribe, without regard to the bureau for which they are purchased.

The obvious weakness in this legislation is that it was destined to replace overstocking by understocking. Bureau chiefs were understandably reluctant to approve requisitions for materials for which their appropriations would pay, but which could readily be used for functions financed under other appropriations, without reimbursement. As might be expected, the only materials ordered were those for which an immediate demand existed. Consequently,

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[2]26 U. S. Stat. 205 (1890).

inadequate provisions were made for stocking of normal requirements with no provision for emergency requirements. Not only were inventories almost non-existent, but procurements were labeled as priorities urgently required for operational readiness.

## Act of March 3, 1893[3]

Evidence of the weakness of the common property system of the Act of 1890 is found in the words of Paymaster-General of the Navy Edwin Stewart in his report to the Secretary of the Navy.

> These laws have an admirable tendency to limit purchases to absolute foreseen necessities, as chiefs of bureaus naturally object to approving requisitions for the purchase of supplies out of appropriations under their control, which may in possible contingencies be diverted to the uses of other departments.
>
> There should, however, always be on hand sufficient supplies to meet constant demands. Delays would be obviated if there could be kept always in store a stock of ordinary commercial articles to be replenished from time to time by requisitions emanating from the general storekeeper.
>
> In order to secure this end by a method that could in no way be objectionable to the several bureaus, I would respectfully recommend that Congress be asked to create a fund amounting to $200,000 to be known as the supply fund, out of which ordinary commercial articles may be purchased on requisitions originated by general storekeepers and approved by the Paymaster General; such supplies when issued to the different departments to be charged against the proper appropriation, and the fund reimbursed in this way kept intact. This would not entail any expenditure in excess of the regular annual appropriation; it would prevent detention of ships needed for sudden and immediate service and would enable the purchase by contract, after public advertisement, of a large quantity of supplies which now must of necessity be procured in the open market under emergency requisition.[4]

Here was a significant contribution. Stewart offered a solution to a trend which was leading to tragic events unless a damper was applied. Congress was quick to recognise the merit in Stewart's plan for putting the Navy supply system and the Navy back on its feet. The immediate action was this gratifying

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[3] 27 U.S. Stat. 723 (1893)

[4] U.S. Dept. of the Navy, Bureau of Supplies and Accounts, Report of the Paymaster-General of the Navy, (Washington: Government Printing Office, 1892), p. 5.

excerpt from the Act of March 3, 1893:[5]

> . . . and the Secretary of the Treasury is hereby authorized and directed to cause general account of advances to be charged with the sum of two hundred thousand dollars, which amount shall be carried to the credit of a permanent naval-supply fund to be used under the direction of the Secretary of the Navy in the purchase of ordinary commercial supplies for the naval service, and to be reimbursed from the proper appropriations whenever the supplies purchased under said fund are issued for use.

This was the birth of the Navy Stock Fund. Over the years it has led a stormy and tottering existence. At times the fund concept retrogressed. It has been identified by several different names or aliases during this time, the name Navy Stock Fund not appearing until 1949. Nevertheless, the revolving and permanent features under which the Naval-Supply Fund was established in 1893 are in essence the foundation of the Navy Stock Fund of today.

## Naval Supply Account and Return of Annual Revolving Fund

Considerable furor in 1910 was the consequence of a transfer of about $9,000,000 in materials from other Navy accounts to the Naval Supply Fund, such action being in consonance with the views of bureau chiefs and the Paymaster-General. The Secretary of the Navy, however, had reservations as to the legality of this action and requested a decision from the Attorney General. The Attorney General saw the logic of the transfer and agreed with it in principle; however he suggested that legislation was required to establish the legality of such a procedure.

Congress asserted themselves again and decided that it would be quite appropriate to adopt this transfer philosophy for all naval stores. Accordingly, the course taken was in compliance with the Acts of June 25, 1910[6] and March 4, 1911,[7] the net effect of the two being the abolition of the Naval Supply Fund and creation of the Naval Supply Account. The value of all stores on hand was

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[5] 27 U.S. Stat. 723 (1893).

[6] 36 U.S. Stat. 792 (1910).

[7] 36 U.S. Stat. 1279 (1911).

charged to the Naval Supply Account and future purchases were paid for from the General Account of Advances and charged to the Naval Supply Account. Upon issue, the proper appropriations were charged and the General Account of Advances received reimbursement. Virtually all naval stores were now carried in the Naval Supply Account.

As can be readily seen, this legislation represented a return to the annual revolving fund feature which had been abandoned in 1893. Unlike the old annual revolving fund, however, the Naval Supply Account was under unified management for procurement, inventory control, and issue. Of fundamental importance is the establishment of general storekeeping books required to cope with the Naval Supply Account. These books were the forerunners and laid the groundwork of the modern Navy supply accounting system.

## Naval Supply Account Fund

The permanency feature of the revolving fund returned in 1921.[8] The Naval Supply Account was retained. A Naval Supply Account Fund was introduced. All inventories and future procurements were taken up in the Naval Supply Account as before. However, procurements were now financed with the Naval Supply Account Fund with subsequent reimbursement from the proper customer appropriations. By transferring to the fund an amount equal to the value of all stores and unexpended balances of annual appropriations for Fiscal Years 1919 and 1920, and by charging deficiencies for fiscal years prior to 1921, a specific dollar value was established for the Naval Supply Account Fund. Thereafter the quantity of stores purchased was limited to the balance of the fund rather than the total of naval appropriations. Except for a change in name to Naval Stock Account and Naval Stock Fund in 1942,[9] the basic 1921 principles remained

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[8]First Deficiency Appropriation Act for Fiscal Year 1921.

[9]56 U.S. Stat. 645 (1942).

unchanged after World War II.

## Navy Stock Fund - Navy Stock Account

After World War II the National Security Organization of the Commission on Organization of the Executive Branch of the Government became very active in recommending introduction of organizational and management changes in the executive departments. One of the committees of this commission, under the chairmanship of Mr. Ferdinand Eberstadt, first made the recommendation which led to the most recent legislative authority dealing with the stock fund.

The new legislation was the National Security Act of 1949, Public Law 216, Title IV,[10] hereinafter referred to as Title IV. This act broadened the horizons a great deal. Title IV placed a legislative stamp of approval on stock fund operations in all military departments - a sort of vote of confidence for the Navy modus operandi. Suffice to say that Title IV had little effect on the Navy except for another change in names to Navy Stock Fund and Navy Stock Account. More important is the added impetus given the fund concept.

## Summary

So went the historical development of the Navy Stock Fund. The use of the General Account of Advances, or annual revolving fund, gave way to a general storekeeping system of centralized control. This system, fraught with problems of overstocking, was replaced by the common property theory and the natural consequence of understocking. The permanent-type supply fund created in 1893 was dropped in 1911 in favor of the Naval Supply Account and its bookkeeping system of control. In 1921 the Naval Supply Account was married to the Naval Supply Account Fund, a permanent-type fund. This arrangement offered financial

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[10] 63 U.S. Stat. 587 (1949).

accounting under the Naval Supply Account Fund and Stores accounting under the Naval Supply Account. The sum of the value of stores in the account and cash in the fund represented the total capital of the Navy Supply Account Fund. By way of repetition, the Navy Stock Fund finances the procurement of the material inducted into the Navy Stock Account. The Navy Stock Fund is reimbursed for the value of the materials issued by the appropriation drawing the material. The passage of Title IV did little to change this situation.

It is not intended to imply that the Navy Stock Fund managers have been idle since enactment of Title IV. To the contrary, many notable advancements have been made since, so that today the Navy Stock Fund represents one of the foremost tools for improved supply management, and its future role promises to be one of great potential.

## CHAPTER III

## THE NAVY STOCK FUND TODAY

The illustration resorted to in the first chapter and the historical motivations leading to the development of the Navy Stock Fund are purposefully included in this paper. To prepare for discussion of the Navy Stock Fund of today, the previous chapters have served to furnish an understanding of the fund principle. This chapter will deal more explicitly with the purpose, definition, composition, and management organization of the Navy Stock Fund.

### Purpose and Objectives

#### Historical Slant

We may best approach the purpose of the Navy Stock Fund by reflecting on its history. What led to the Act of 1893? A period of overstocking was followed by an era of understocking, with bureau independence in the matters of requirements determination, procurement, storage, inventory control, issue, disposal, and other supply functions. Furthermore, due to common ownership there was no exact method of collecting accurate cost data nor would it have been a simple matter to determine the total Navy investment in inventory. In short, an era of chaos and confusion gave rise to an urgent need for centralized control.

#### Congressional Slant

Now to bridge the span from 1893 to 1949. A look at the stated legislative purpose for working-capital funds, of which the stock fund is a type,

reveals the following:

> "In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense . . ."[11]

Thus observe that there has been no real change in purpose over a fifty-six year period.

More definitive is a statement made in a report of the Committee on Government Operations in 1953.[12]

> The theory of procurement, distribution, and control of inventories through the operation of stock funds has been advanced as one of the soundest methods for improving supply management. It is true that accounting for the dollar value of supplies purchased, on hand, and consumed can be accomplished without the use of stock funds, and for technical items with low turnover such funds are not feasible. Furthermore, it is recognized that stock funds cannot cure all the faults of poor supply management.
>
> The use of stock funds simplifies accounting and budgeting. Stock funds can improve the ability of a good manager to do an effective job in purchasing and in inventory control. It is generally acknowledged that the use of stock funds will simplify Congressional control of operations by clearly distinguishing consumption from supply and by allowing Congress to maintain control over consumption by the appropriation process with better knowledge of previous consumption and of quantities of repetitive-use material on hand.

Again borrowing from Congressional committee reports the following is submitted:[13]

> Objectives
>
> To provide a means for business like management and financing . . . of common-use standard stock inventories.
>
> To permit consolidation of operating and fiscal responsibilities under single management.
>
> To promote buyer-seller relationship between an activity and military purchasers.
>
> To make practical common use of available . . . inventories and to reduce or eliminate overlapping or duplication of services and facilities.

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[11] 63 U.S. Stat. 587 (1949), Section 405.

[12] U.S. Congress, House, Committee on Government Operations, Military Supply Management, Third Intermediate Report, July 16, 1953, (Washington: Government Printing Office, 1953), p. 15.

[13] U.S. Congress, Senate, Implementation of Title IV, op. cit., p. 164.

Results Expected

Modern commercial fiscal, budget and accounting systems.

Procurement usage and inventories of materials and supplies reported and controlled in monetary terms.

Budget estimates and reported costs are stated on basis of usage.

Department of Defense Slant

The Navy Stock Fund Charter, brief in this regard, reads as follows: [14]

To provide a simplified and effective means of managing, controlling, financing, and accounting for, through the use of working-capital funds, such materials, supplies, and equipment . . .

Pertinent to the subject of purposes and objectives are the Department of Defense Regulations Governing Stock Fund Operations. These regulations are singularly complete and represent the most recent statement of purpose of stock funds.[15]

(1) To provide a simplified means for consolidated management, financing, control, and accounting for the procurement and inventories of those items of materials, supplies, and equipment, the costs of which are chargeable, when issued for use, to a number of consuming activities.

(2) To facilitate improved financial control of consumption of materiel included in such stocks through budgeting, financing, and accounting for use of such materiel at station level.

(3) To provide a means for financing the acquisition and holding of stocks of those items of materials, supplies, and equipment which are distributed, in part, through sale to personnel of the Department of Defense (other than those items financed through nonappropriated-fund activities such as exchanges), thus simplifying appropriation accounting and giving greater financial flexibility in these operations than is available by any other means.

The regulations go on to state the objectives of stock funds.

(1) Funds will be provided automatically for replenishment of stocks through reimbursement of the Stock Fund for material consumed or sold.

(2) There will no deterrent and no incentive to place obligations other

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[14]U.S., Department of the Navy, Bureau of Supplies and Accounts, Instruction 7610.1, September 26, 1955.

[15]U.S., Department of Defense, Directive Number 7420.1, February 1, 1954.

than when required because of the availability or nonavailability of appropriations.

(3) Obligations for purchases of Stock-Fund items may sometimes be timed (without speculation) to take advantage of favorable prices, when such timing would be impossible if the items were financed under limitations of annual appropriations.

(4) To the extent otherwise deemed appropriate, single-service supply, or cross servicing between the departments is facilitated . . . .

(5) The financing and accounting for materials, supplies, and equipment procured and held for the reserve forces . . . or other users of common items within the military department are simplified similarly.

(6) The financing through a Stock Fund of mobilization reserve stocks of consumable materials and supplies results in their protection for the use for which they are intended, because they cannot be diverted to meet current needs without provision for replacement through reimbursement from current appropriations.

(7) The institution of the requirement for financial control over the cost of consumption of material carried in Stock Funds, as a part of the normal processes of budgeting and control over the expenditure of appropriated funds, is a force for greater cost consciousness, economy, and efficiency in use of such material that does not exist when financial control over material is confined to procurement requirements.

(8) The use of a Stock Fund can be made a force for close control over stocks of the respective items of material carried in the fund through the control over financial resources of the fund in relation to supply requirements. This use of the fund will provide an automatic incentive for limitation of inventory levels, better balanced inventories, and limitations of procurement requirements of peacetime operating stocks.

(9) One result of the Stock Fund device is that budget estimates and reported costs of materials, supplies, and equipment issued from the Stock Fund are stated upon the basis of consumption rather than purchase. This is a better measure of performance costs of those activities which use such materials and supplies. By this device the use of the accrual basis of accounting for appropriations is provided in a relatively simple manner. This will aid financial control of the costs of operating all activities, including budgetary reviews of all programs.

## Definition

### Navy Stock Fund-Navy Industrial Fund

In the previous discussion on the purpose and objectives of the stock

fund a definition was provided by indirection. Therefore, further definition will be limited to one by comparison with the Navy Industrial Fund.

It has already been established that Section 4.05 of Title IV established the authority for stock funds. That section similarly provided for industrial funds. The Navy Industrial Fund furnishes on a reimbursable basis working capital for such industrial-type activities, and for such commercial-type activities as provide common services within the Navy or between other departments. The Navy Industrial Fund is in a stage of rapid expansion and is currently employed in some ordnance, printing, and clothing plants and in all shipyards. Its use in other similar-type facilities is contemplated.

On the other hand, the Navy Stock Fund finances procurement of certain categories of stores, supplies, materials and equipment. Thus, the Stock Fund provides capital to supply goods; the Industrial Fund provides capital to supply services. Both operate on a reimbursable basis. The Stock Fund can be a customer of the Industrial Fund for major repair or manufacturing jobs; the Industrial Fund can be customer of the Stock Fund in material requirements in the performance of a service.

Navy Stock Account-Appropriation Purchases Account

The Navy Stock Account, an important component of the Navy Stock Fund, deserves some additional treatment through definition. Since the Navy Stock Account has received indirect recognition, further definition will also be limited to comparison with other accounts utilized by the Navy. The Navy operates three major types of stores accounts which differ from each other in basic methods of financing, accounting, and over-all management of material. It is significant to observe that the sum total of the inventories of these three accounts represent the total investment in Navy inventories. These accounts are summarized

below.[16]

1. The Appropriation Purchases Account, by far the largest, contained an eleven billion dollar inventory beginning Fiscal Year 1953. This inventory had already been paid for by the appropriation supporting the program for which the material will be used. The materials bought under the various appropriations retain their identity to programs through inventory control techniques.

2. The Ships Material Account, Ships Construction Material Account and Shipbuilding and Conversion Stores Account all carry inventories of material for Navy industrial activities. The total value of these accounts in Fiscal Year 1953 was seventy million dollars, having been financed similarly to the Appropriations Purchases Account, from using appropriations. The relatively small value of these accounts and the fact that their discontinuance in favor of special accounting classes in the Appropriation Purchases Account justifies omission of them from further consideration.

3. The Navy Stock Account contained a one and one half billion dollar inventory beginning Fiscal Year 1953. The material had not yet been paid for by using appropriations. Because of the nature of a revolving fund, that is, faster relative movement of material, the transactions during any peacetime year approximate the total value of the inventory carried in the Appropriation Purchases Account.

## Composition of the Navy Stock Fund

Having studied why the Navy has a stock fund and what the stock fund is, we are now prepared to investigate the composition of the stock fund. Up to now

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[16]U.S., Department of the Navy, Bureau of Supplies and Accounts, Reporting for Management of Navy Inventories, NAVSANDA Publication 250, April 1953, p. 2.

a degree of confusion may have been generated with regard to whether the stock fund is money, material, or both. The use of the word "fund" gives rise to this confusion because it is common to associate the word with money or cash. A fund need not be limited to money, nor is the stock fund so limited. The capital of the Navy Stock Fund comprises a cash account and a stock account. The cash account contains a sum of money. The stock account, or Navy Stock Account, is the value of the material financed by the cash account. The summation of the cash account and stock account balances is the capital of the Navy Stock Fund. This explanation is not altogether technically correct because of the disregard for such considerations as receivables, payables and reserves which affect the balance of capital. However, for our purposes the above explanation has the attribute of simplicity and provides a reasonable point of departure for comprehension in further discussion of the stock fund.

## Capital of the Navy Stock Fund

Cash and materials make up the capital of the fund. To best illustrate composition of the capital, the period covered by Fiscal Year 1955 will be considered. Table 1 is a recapitulation of the following discussion. On July 1, 1954, the capital was $2,190,796,024. This was the sum reported to Congress in the budget for Fiscal Year 1955. Of this total, $1,235,587,013 was the net amount of appropriations Congress had provided for the fund in previous years. The net of $955,209,011 was the result of capitalization or transfer of inventories to the fund or changes due to operations. From year to year the capital value changes as the result of congressionally-motivated increases or rescissions, capitalization of inventories or increases or decreases due to operations.

Congressional Changes. - The theory of Congressional changes is based on Congressional power of the purse. By regulating the capital of the several funds

Congress indirectly controls military expenditures. In practice this control is almost meaningless because expenditures from the fund are made in response to demand of customers. But expenditures customers make are already limited by appropriations made by Congress.

During Fiscal Year 1955 Congress appropriated a net of $200,000,000 to the fund. In July a rescission of $200,000,000 was made to reduce the capital of the fund.[17] This action actually resulted in the available cash of the fund being less than outstanding obligations. Consequently, the fund was operating in a state of overobligation. Bluntly stated, the fund was in the red. This condition was not as serious as first impression might indicate as we shall observe in a discussion of the cash composition of the fund. In December 1954 $400,000,000 was made available for expansion to provide working capital for the support of additional technical material. Authority for this increase was derived from Title IV which specifically provided for the transfer of cash from balances of prior years' appropriations.

Inventory Capitalization Changes.-Changes in the capital of the fund also result as the consequence of capitalization of inventories. A net of $114,404,047 came from this source in Fiscal Year 1955, as the scope of the fund was broadened, primarily in the General Stores, Special Shipboard Electrical Fittings and Fixtures, and Common Electronics categories.

Operational Changes.-In the area of operations the capital of the fund is affected by losses or gains by sale of excess or surplus materials, survey, inventory, price adjustments, accounting adjustments, transportation costs and other similar items. The total change due to operations in Fiscal Year 1955 was a net decrease of $125,948,065.

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[17] U.S., Congress, Public Law 458, 83rd Congress.

Net Changes.-These changes in capital, when applied against the beginning capital of $2,190,796,024, resulted in a net increase of $188,456,581 and a June 30, 1955 reading of $2,379,252,605.

Cash Composition of the Navy Stock Fund

As in any business enterprise, the cash position of the fund is of paramount importance. It directly affects the amount of inventory build-up which can be effected. At the beginning of Fiscal Year 1955 the cash segment amounted to about $379,544,197, of which $204,659,073 was obligated, thus leaving an unobligated balance of $174,885,124.[18] As has already been observed, Congress reduced available cash by $200,000,000. A simple subtraction reveals that Congress has created an overobligation of about $25,000,000.[19] However, due to cash receipts exceeding expenditures, this amount was reduced to $14,000,000. The $400,000,000 subsequently authorized for expansion contributed to the cash position which amounted to $656,369,000 on December 31, 1955, of which $467,840,000 was unobligated.[20] Thus by the addition of $400,000,000, the $25,000,000 deficit became an unobligated balance of $467,840,000. Where did the unaccounted-for $92,840,000 come from? The answer lies in the fact that receipts from sales continued to exceed expenditures. The last six months of the fiscal year saw a corresponding trend with receipts exceeding expenditures by $81,420,000. The resulting high unobligated balance of $591,942,000[21] on June 30,1955 was again cut by Congress in a rescission of $429,000,000.[22]

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[18] The Navy Stock Fund, op. cit., Statement 1.

[19] At the close of Fiscal Year 1953 Congress took similar action through the passage of Public Law 179 - 83rd Congress, which resulted in an overobligation of $50,000,000.

[20] The Navy Stock Fund, op. cit., p. 5. [21] Ibid.

[22] U.S., Congress, Public Law 157, 84th Congress.

TABLE 1*

NAVY STOCK FUND
SOURCE OF CAPITAL

| | THROUGH 30 June 1954 | CHANGE DURING Fiscal Year 1955 |
|---|---|---|
| Appropriations | $2,546,679,780 | $400,000,000 |
| Less Reappropriations | 1,311,092,767 | 200,000,000 |
| Net Appropriation | $1,235,587,013 | $200,000,000 |
| Capitalized Inventories | 519,049,309 | 114,404,647 |
| Operations Increase or Decrease | 436,159,702 | -125,948,066 |
| Capital at End of Fiscal Year | $2,190,796,024 | $188,456,581 |
| | 188,456,581 | |
| Capital at End of Fiscal Year 1955 | $2,379,252,605 | |

*Source: Data for this table were extracted from: Navy Department, Bureau of Supplies and Accounts, The Navy Stock Fund, annual report for Fiscal Year 1955.

A pattern is quickly seen in the above record of authorizations and recissions. Congress endeavors to keep cash for increased inventories a scarce commodity. As already intimated, this control effort, although perhaps an effective device for a poorly-administered fund, appears to be of little consequence in the operation of the Navy Stock Fund. At times when the international situation dictates a rapid inventory expansion this device has proven to be a deterrent to effective management of the fund.[23]

Overobligations discussed above and in the section devoted to capital of the fund are not dangerous. It is recognized that the stock fund, as any

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[23]John W. Hempstead, "A Study of the Navy Stock Fund 1893-1952", (unpublished Master's thesis, The American University, Washington, D.C., 1953) pp. 41-43.

business, must operate on a credit basis in anticipation of receipts. Such a need is provided by Public Law 179 passed by the 83rd Congress which provides

> "that obligations may be incurred against anticipated reimbursements.... to maintain required stock levels not inconsistent with planned operations for the succeeding fiscal year, without regard to fiscal year limitations."

## Material Composition of the Navy Stock Fund

Having developed the make up of the cash portion, the next subject concerns the type of material financed by this cash. Perhaps one of the most controversial aspects of stock fund management has been the criteria for ascertaining what categories of material should be financed under the stock fund. There have been many perplexing problems in this area which have plagued Navy Stock Fund managers for some years. Those closely associated with studies on the subject can readily furnish convincing arguments in favor of or against the transfer of a specific line of material to the stock fund. The remainder of this chapter will be limited to a discussion of only those categories of material currently carried in the Navy Stock Account or those categories for which management under the Navy Stock Fund is contemplated.

Exclusions from Stock Funds.-As a general principle, items which may be included are confined to those items for supply purposes as opposed to those held for capital investment. Inclusions are more easily defined by first defining exclusions. The following exclusions are cited by the Department of Defense:[24]

> (1) Real estate, installed equipment, industrial and similar machinery and equipment issued and in use or held in stores for future use.
>
> (2) Aircraft, ships, tanks, military type vehicles, artillery, and similar items.
>
> Although it is difficult to draw a specific line this paragraph shall not be construed to prevent including in Stock Funds components of the foregoing items or relatively minor items of equipment if there is a recurring demand for them, so long as they are held in stores and are not in use.

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[24]Department of Defense, Directive Number 7420.1, op. cit., p. 8.

Inclusions in the Navy Stock Fund.-Basically the determination of categories of items to be included are two fold: (1) those categories of items which are issued to a number of using activities; or (2) those categories of items sold to personnel of the Navy or other agencies of the Department of Defense.

Of necessity, items carried in the Navy Stock Account must meet certain additional criteria in accordance with good business practices if the maximum effectiveness of the fund is to be realized. The most important of these criteria follow:[25]

(1) A recurring demand must exist for the item. This will assure a repeated inventory turnover and prevent dormant inventories. The need for such a requirement is manifested in the necessity to maintain a cash position such that procurements of pressing requirements are not delayed because of lack of funds.

(2) At this writing items having high potential obsolescence are generally excluded.

(3) Only items which have been standardized are included as a general rule. Non-standard items are normally included only when standardization is pending. This subject will be discussed at greater length at the end of this chapter.

Major categories of material initially financed under the Navy Stock Fund are common electronics, general stores, vehicular equipment repair parts, special shipboard electrical fittings and fixtures, clothing (including special clothing and clothing and small stores), Ship's Store and Commissary Store stock, Medical and Dental, Blood Plasma and related items, provisions, fuels and related items, and ships repair parts.

At this point it is desirable to momentarily dwell on the Navy's division of management for its various categories of material. This information is

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[25] Ibid.

desirable for understanding the decentralization of management and for proper orientation in the discussion of categories, both of which are treated in this chapter.

"A category of material is a major grouping of items for supply management purposes, generally related to basic material logistics organization, which may include all or parts of a number of classes of material."[26] Shown in Table 2 are brief descriptions of the categories of naval material preceded by the respective inventory or program manager and a cognizance symbol or code which in itself identifies the category and inventory manager. Additionally, the account in which the material is carried is indicated. Where appropriation Purchases Account is in parenthesis, the categories are those fitting the criteria for Navy Stock Account material for which no plans for transfer have yet been formulated and approved.[27]

The contents of Table 2 lead us to the Navy Stock Fund Charter statement of material to be carried in the Navy Stock Account inventory.

> Inventories.-All materials procured and/or stored in the Navy supply system for issue for maintenance and operating purposes are authorized to be carried in the Navy Stock Fund. Normally this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.[28]

The above quotation continues by stating the categories of material to be initially financed under the Navy Stock Fund and further stating that "all other categories of material (including spare parts) authorized to be carried in the Navy Stock Fund shall be included as expeditiously as possible."

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[26]U.S. Department of the Navy, Bureau of Supplies and Accounts Manual, NAVSANDA Publication No. 1, Vol. I, par. 11,004-1.

[27]U.S. Department of the Navy, "Navy Comptroller Briefs," NAVEXOS P1360, Vol. II, No. 10, Oct.-Nov. 1955, p. 3.

[28]U.S. Department of the Navy, Bureau of Supplies and Accounts, Instruction 7610.1, op. cit., par. IV.

TABLE 2

MATERIAL CATEGORIES

| Cognizance Symbol | Inventory-Program Manager | Account | Category of Material |
|---|---|---|---|
| A | Portsmouth Naval Shipyard | NSA | Special Shipboard Electrical Fittings and Fixtures |
| B | Bureau of Supplies and Accounts | APA/NSA | Excess material, Gov't Furnished Material, Materials Handling and Dehumidifying Equip., Forms. |
| C | Bureau of Yards and Docks | APA | Major Construction and Civil Engineering Equipment. |
| E | Aviation Supply Office | APA* | Photographic Material. |
| F | Bureau of Ships | APA | Major Electronic Equipment. |
| G | General Stores Supply Office | NSA | General Stores Material. |
| H | Ships Parts Control Center | NSA/APA* | Ships Repair Parts. |
| J | Bureau of Ordnance | APA | Major Ordnance Equip. and Explosives. |
| K | Bureau of Naval Personnel | APA | Training Aids and Library Books. |
| L | Medical and Dental Supply Office | NSA | Medical and Dental Material. |
| M | Provisions Supply Office | NSA | Subsistence Stores. |
| N | Electronics Supply Office | NSA/APA | Electronics Repair Parts. |
| P | Submarine Supply Office | APA* | Submarine Repair Parts. |
| Q | Navy Ship's Store Office | NSA | Ship's Store and Commissary Store Stock. |
| R | Aviation Supply Office | (APA) | Aeronautical Material. |
| S | Bureau of Ships | APA | Major Shipboard Machinery and Components. |
| T | Special Devices Center | (APA) | Special Training Devices and Repair Parts. |
| U | Clothing Supply Office | NSA | Clothing and Related Items. |
| V | Bureau Aeronautics | APA | Major Aeronautical Equipment. |
| W | Fuel Supply Office | NSA | Solid Fuel, Petrolatum and Related Products, Asphalts, Coal Tars. |
| X | Military Sea Transportation Service | None | Military Sea Transportation Service Special Material. |
| Y | Yards and Docks Supply Office | NSA/APA* | Vehicular Equipment Repair Parts. |
| Z | Ordnance Supply Office | (APA) | Ordnance Repair Parts. |

The expansion envisioned by the Charter has been expeditious. In Table 2 the account (APA or NSA) is underlined for those categories initially financed under the stock fund. The asterisks indicate those categories for which transfers are in various stages of completion. Close inspection of Table 2 reveals that the remaining categories of material which fit the definition of stock fund material are enclosed in parentheses. These categories are Aeronautical Material, Special Devices and Replacement parts, and Ordnance Repair Parts.

Standard Stock and Nonstandard Stock.-Generally the inventory manager for each of the cognizance symbols listed in Table 2 is a Navy bureau or an activity known as a supply demand control point. These offices control determination of requirements, procurement, distribution, issue, disposal, and other related supply functions. During the procurement process a Federal Stock Number is assigned by the Office of Cataloging, of the Department of Defense, to each item repetitively used, procured, stocked or distributed. Each item assigned a Federal Stock Number must be properly identified in accordance with Department of Defense cataloging regulations. Materials having been assigned Federal Stock Numbers are considered as being "standard stock." Certain materials not under centralized inventory control of bureaus or supply demand control points are assigned stock numbers by holding activities. These so-called "local stock numbers" are similar to Federal Stock Numbers in that they too are constructed in accordance with the same regulations. However, they are earmarked in the structure of the stock number as being local stock numbers and, therefore, nonstandard stock.

Traditionally the Navy Stock Fund was used to finance only standard stock items. Lack of probable recurring demand for nonstandard stock was the major underlying reason for this policy. Movement was usually slow and obsolescence potential high. Secretary of Defense Regulations require exclusion of

individual items not fully developed for use or application and that they not be stocked as standard material for continuing use.[29] Consequently, nonstandard stock was the subject of local procurement and induction into the Appropriation Purchases Account, with financing coming from the local maintenance or special allotments.

This method of financing nonstandard stock resulted in complex procedures for procurement, stocking, issue, and accounting. Through trials conducted on several categories of nonstandard stock at several activities it was determined that Navy Stock Fund financing simplified the financing, procurement, accounting, and control of nonstandard items having a recurring demand. Further, minimum difficulty and loss to the fund would result provided sound merchandising principles were followed to balance input and expenditures, and authorized stock levels were used.

Accordingly, allotments are now provided to field activities for procurement of nonstandard stock at the local level.[30] Nonstandard items are funded only when standardization is pending or when items are stocked as substitutes for standard items. Of course, emphasis is placed on standard items whenever feasible and standardization of nonstandard items having a recurring demand. Obviously one-time, non-recurring requirements are financed by requiring appropriations unless the material is required for Navy Stock Fund manufacturing job orders.

## Organization for Management

The Bureau of Supplies and Accounts has responsibility to the Secretary of the Navy for administration of the Navy Stock Fund. However, this

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[29] U.S., Department of Defense, Directive Number 7420.1, op. cit., p. 8.

[30] U.S., Department of the Navy, Bureau of Supplies and Accounts, Instruction Number 4443.4, Aug. 19, 1955.

administration is within the policy statements, regulations, and procedures issued by higher authority.

First of all, we are already familiar with Title IV, the Congressional authorization for working-capital funds. Under the authority of Title IV, coordination of various policy directives and stock fund regulations is accomplished by the Assistant Secretary of Defense (Comptroller). This coordination assures standardized operation of stock funds throughout the Department of Defense. As previously mentioned, the initial regulations for all stock funds, issued by the Department of Defense, generally adopted the procedures already established in the operation of the Navy Stock Fund.

Within the Navy, administration of the Navy Stock Fund is the responsibility of the Chief of the Bureau of Supplies and Accounts (Paymaster-General of the Navy), who delegated direction and management of the fund to an Administrator of the Navy Stock Fund.

Below this level there are program managers (supply demand control points). Each manager has responsibility for one or more of the categories of material listed in Table 2. The final chain of administration is the control the supply demand control points exercise over field supply officers. These officers may be responsible to several control points for local procurement, distribution, issue, storage, and other supply functions.

## CHAPTER IV

## FINANCIAL AND PROPERTY ACCOUNTING

The next logical consideration in a study of the Navy Stock Fund is its method of obtaining funds and of accounting for funds and materials. We already know what the fund is and that it operates on a revolving basis, the vehicles being the Navy Stock Fund and the Navy Stock Account. Methods of obtaining funds and accounting for funds and materials are features thus far mentioned only in passing.

### Budgeting and Allotments, and Financial Accounting

Discussion of the composition of the fund in Chapter II did establish that Congress regularly gave and took funds depending on the cash position of the fund at the time. With respect to these funds, this section will accentuate budgeting and allocation and financial accounting.

### Budgeting

Navy Stock Fund program managers, through a detailed line item computation of requirements for the budget year, estimate the funds required for procurements. The requirements computation is based on the Navy plan or program objectives for the budget year as issued by the Chief of Naval Operations and amplified by Navy Department bureaus.

The Stock Fund requirements of all program managers are consolidated by the Bureau of Supplies and Accounts. This budget is reviewed by the Assistant Secretary of the Navy (Comptroller), Chief of Naval Operations, Secretary of

Defense, the Bureau of the Budget, and finally Congress. In other words, the normal executive budgetary procedures are adhered to.

One important exception from the budgetary process is that the appropriation requested for the Navy Stock Fund is by no means the sum total of program managers' budget estimates. Rather, the amount requested or the amount in excess of needs is the differential of total requirements and the estimated amount the fund will generate by virtue of its revolving nature. The sum total of the requirements of program managers does on the other hand represent the amount of new obligational authority requested of the Director of the Bureau of the Budget.

Congressional decision results in a rescission, an additional appropriation or no change in the appropriation. In addition, based on budgeted requirements, the Bureau of the Budget will grant obligational authority which will be released to the Navy through what is known as the apportionment process, just as is any other Navy appropriation. Thus it would appear that the advantage of flexibility afforded by a revolving fund is subrogated by the over-burdonsome apportionment process.

## Allotments and Obligational Accounting

The Bureau of the Budget controls rate of expenditure through the quarterly apportionment of the obligation authority. The Bureau of Supplies and Accounts, the recipient of these apportionments, reports the status of the apportionment to the Bureau of the Budget monthly. These reports reflect expenditures, obligations, and commitments against the fund. Thus obligational accounting affords a positive method of keeping a constant eye on the credit of the fund.

From the apportionments received, the bureau grants allotments to pro-

gram managers on the basis of requirements stated in their budget estimates. Program managers in turn are authorized to make sub-allocations to supply activities for local purchases. Monthly allotment reports submitted by the program managers facilitate the reports required of the Bureau of Supplies and Accounts in the obligational accounting process. These reports also serve as a partial guide in granting of subsequent quarterly allotments.

## Cash Accounting

Obligational accounting serves as a management tool for controlling rates of expenditure. Cash accounting on the other hand is purely for purposes of keeping an accurate reflection of the Navy Stock Fund balance on the books of the Treasury (Cash) Account (symbol 17x4911). Receipts are deposited to that account and disbursements are drawn from that account.

Cash Receipts.-Congressional appropriations are credited to the cash account when additional working capital is authorized. Other receipts are the result of issues of Navy Stock Account material with a charge to other appropriations, cash sales to other government agencies or sales to other authorized personnel. Monthly reports made by supply officers or disbursing officers result in the monthly accumulation of all such transactions. The Treasure account is then adjusted by a credit to the Navy Stock Fund and a charge to the other appropriations or cash collections.

Cash Expenditures.-Expenditures are similarly recorded as the result of Congressional rescissions and payments for materials. These transactions result in a charge to the Treasury account.

Maintenance of a Favorable Cash Position.-There is no set formula for computing liquid cash needs. A number of variable factors must receive appropriate consideration. Maintenance of a favorable cash position is a measure of the efficiency of management of the fund. The following lists several of the factors

governing the cash position:

(1) Investments for the purpose of increasing normal stock levels.

(2) Outstanding obligations at any given time since these will ultimately become cash disbursements.

(3) Reimbursements which will offset cash disbursements.

(4) Procurement lead time or time elapsing from date material is ordered to date received.

(5) Necessity for fluctuations as result of heavy seasonal buying.

(6) Period of time in the reimbursement cycle.

## Records and Reports and Stores Accounting

Major sources of material are derived from capitalisation of inventories when new categories are inducted into the Navy Stock Account and from procurement of materials for maintenance of established stock levels. Cash accounting having been accomplished it remains to account for the stores in the custody of the supply officers until those stores are issued and the fund is reimbursed. This constitutes accounting for the Navy Stock Account portion of the Navy Stock Fund. This involves financial reporting and property reporting for inventories as well as item inventory reporting for procurement and distribution action. Thus the reporting procedures to be discussed facilitate stores accountability and inventory management.

### Records

The basic record for all stores accounting and reports is the Stock Record Card. These cards contain a running inventory. All expenditures and receipt transactions are recorded on them. An auxiliary card contains price and a valuation of the perpetual inventory. Stock Record Cards are maintained either manually or mechanically, with each item of supply carried in stock at the ac-

tivity being recorded on an individual card. The following information is essential to an understanding of how Stock Record Cards are used in the reports to be discussed:

1. Each item of Navy material is identified by eleven digit Federal Stock Numbers.

2. The first four digits of the number identify the Federal Supply Classification to which the item is assigned. This classification facilitates grouping of related items on the basis of "what they are" or "how they are used" and provides a tool for supply management. The remaining seven characters of the Federal Stock Number is called the Federal Item Identification Number.

3. Prefixed to Federal Stock Numbers are cognizance symbols (see Table 2) which identify the category of material and the inventory manager.

Federal Stock Numbers are recorded on Stock Record Cards as are the stores accounts in which the materials are carried. For materials in the Navy Stock Account the cards are filed by cognizance symbol, Federal Supply Classification, and Federal Item Identification Number in that order. The arrangement permits reporting by material category and by class within that category.

## Stock Status Reports

Quarterly stock status reports are submitted to inventory managers for each cognizance symbol. A single supply activity normally reports to several inventory managers. The stock status reports furnish the necessary information for effective inventory control. For each item of stock reported the reports contain quantities on hand and due in, replenishable issues and planned requirements. Supplementing these reports with planning information known to him the program manager proceeds with computation of requirements, procurement, distri-

bution and redistribution, disposal and other indicated action. Since only certain designated reporting supply activities submit stock status reports and since nonstandard stock is not reported, only about 90% of the total inventory investment is included in the reports.[31]

## Stores Accounting

Accounting for stores involves property, appropriation, and cost accounting for receipts, expenditures and inventories of stores. The property accounting phase covers an analysis of receipts and expenditures of stores. Appropriation accounting involves analysis of expenditures by appropriation and project order or allotment. Cost accounting is an analysis of expenditures by expenditure account classification and object classification. The records and reports necessary to accomplish these analyses are part of stores accounting.[32]

Without going into the details of the above types of accounting, a network of reports is utilized to convey the information on appropriation and cost accounting from field activities to various bureaus of the Navy Department. Property accountability is maintained through the system required for collection of data to prepare these reports. The stores returns and subsidiary reports are used for administrative analysis and control purposes and for preparation of reports required of the Bureau of Supplies and Accounts by the Secretary of the Navy, the Bureau of the Budget, and Congress. The basic instrument for accomplishing these requirements is the Navy Stock Account Balance Sheet and its related documents and reports which provides information on total Navy Stock Account investment and transactions.

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[31] Reporting for Management of Navy Inventories, op. cit., p.3

[32] U.S., Department of the Navy, Navy Comptroller Manual, Volume 3, par. 034000-1.

The balance sheet reports the opening and ending inventories, issues, and receipts, and all other transactions affecting the total value of material in store during the month being reported. It is a fidelity or accountability document on which the material responsibility of the supply officer is determined and is submitted by the fiscal officer.

Balance sheets are submitted to regional offices, known as Navy Regional Accounts Offices, for auditing and consolidation. This consolidation is submitted to the Bureau of Supplies and Accounts for further consolidation. The data reported provides the bureau with vital information used for proper inventory control. From this source information on total Navy Stock Account investment and transactions is available.

All Navy Stock Account material is reported by use of balance sheets. There is, however, a division made in the stock account for all management and reporting purposes. Separate balance sheets are submitted for Medical and Dental materials, Clothing and Small Stores, Ship's Store and Commissary Store Stock, Provisions, and a "catch-all that is left" called "Regular." The essential differences are in the method of operation and management. Each of these divisions, for example, has a different degree of exactness in accountability. Their operation as part of the stock fund, however, is in accordance with regulations and, for our purposes, this is all that really matters. For purposes of this paper all discussion centers about the "Regular" division because it is in this area that recent expansion and future expansion is prominent.

## Financial Inventory Control Reports

By use of a Class Cognisance Ledger a daily record of the dollar value of all receipt and expenditure transactions is maintained for each class in each category of Navy Stock Account material. Opening and closing inventories are

recorded as well. From this basic record, supply officers render a quarterly Financial Inventory Control Report. The report is submitted to the Bureau of Supplies and Accounts, to the bureau having technical interest in the category (such as the Bureau of Aeronautics to whom the Aviation Supply Office is technically responsible for aeronautical repair parts), and to the inventory manager. The Financial Inventory Control Report must be reconcilable with the three stores balance sheets submitted monthly during that quarter.

By use of this report a complete statistical analysis of the transactions in each stores class of each category can be accomplished. The dollar information thus reported supplements the quantitative information received by inventory managers in stock status reports. It also serves as a most useful management tool for such elements as budget planning, forecasting, relating categorical material needs with program requirements, review of performance of inventory managers, and review of distribution, gains and losses and surplus disposal. Finally, the report affords an element of checks and balances through its reconciliation with the stores balance sheet which is prepared by the fiscal officer.

## Consolidated Financial Inventory Control

A Financial Inventory Control Summary is prepared by the Bureau of Supplies and Accounts and distributed to inventory managers. This summary reports Navy-wide consolidations of Financial Inventory Control Reports. Since all supply activities submit Financial Control Reports and since nonstandard stock is reported, the inventory manager is given financial data extending over a wider range than that covered in stock status reporting.

## Monthly Report of Stores Issues by Cognizance

Another cognizance report, the Monthly Report of Stores Issues by Cog-

nizance, is submitted monthly to the Bureau of Supplies and Accounts by reporting supply officers. The reports are consolidated and consolidations are forwarded to inventory managers. As the name implies, the report contains issues by cognizance of material. Thus the manager has a monthly indication of sales volume.

## General

The stores accounting discussion has been limited in scope, the purpose being to establish the fact that such controls do exist as an essential adjunct to effective management of the Navy Stock Fund. The property and financial reports discussed are comprehensive reports based on information extracted from large volumes of transactions and related documents. The supply and fiscal departments in the field are organized to collect and record data for these reports either manually or mechanically. Also omitted from our discussion has been the tremendous amount of activity which takes place and is eventually recorded in these reports, that is: shipping, receiving, issuing, and transfer of inventories between supply officers, to mention only a few. Since we are primarily concerned with an over-all look at the Navy Stock Fund, no further effort will be made at exploration in this direction.

## Summary

Navy Stock Fund budgeting, apportionment, and allocation follow the same general process as do any other Navy appropriations. Supply management over Navy Stock Account inventories is accomplished through two distinct reporting systems: stock status reports by item and financial reports in dollars.

The prominence of financial reporting is on an up-swing through a realization of its real value, which may be summarized as follows:[33]

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[33]U.S., Department of the Navy, Bureau of Supplies and Accounts, "Supply Management Through Monetary Controls" (undated), pp. 2-3.

1. Permits summarizing and evaluation of complex, detailed supply performance in dollar results - a common denominator.

2. The dollar basis is more adaptable to policy direction and control.

3. Dollar reporting permits grouping of dissimilar items to identify trends and to measure progress or lack of progress against plans.

4. Dollar reporting spotlights key problem areas.

Stock status item reporting is an essential adjunct to management of inventories but its importance and the significance of the minutia of detail decreases at each higher level of management. Therefore, as a general rule, item reporting is not used as a management technique higher than the level of the inventory manager. It is true and unfortunate that the information must be available for perusal of budget reviewing authorities when requested. Unfortunate, because the soul searching frequently engaged in with respect to details of the budget continues to be the rule rather than the exception. This habit diverts and discourages efforts in the direction of a performance budget concept. On the other hand, dollar financial reports initiated in the field ultimately reach Congress and all along the line are prominent in making all-important decisions which are primarily based on review and evaluation of financial data.

## CHAPTER V

## OPERATIONS OF THE STOCK FUND

Although it is not possible to be all inclusive within the limited purpose of this paper, this chapter will enumerate on some of the more fundamental operating policies associated with the stock fund.

### Manufacturing, Processing, Repair, and Preservation of Stock

When the relationship of demand to stock position warrants replenishment of Navy Stock Account material by repair, or when manufacture, processing, or preservation of stocks is required, the cost of these operations are financed by Navy Stock Fund allotments or limitations in the form of authorizations issued by program managers. These authorizations finance the cost of all labor and material, and in the case of manufacturing, overhead.[34]

Manufacturing and processing operations are normally a function of the Navy Industrial Fund and are not authorized for stock funds. However, since the stock funds in the Navy had a considerable head start on industrial funds and was already performing these operations, stock fund financing of minor processing has been authorized for those shops already in existence.[35]

Some work is accomplished by issuing stock account material to the Industrial Fund at standard prices for processing at Industrial Fund financed

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[34]U.S., Department of the Navy, Bureau of Supplies and Accounts Manual, op. cit., par. 23029-2 and 4.

[35]U.S., Department of the Navy, Bureau of Supplies and Accounts, Instruction 7610.1, op. cit., par. VIII.

activities. The final article is then transferred at the new cost from the Industrial Fund to the stock account. The goal is for the Navy Stock Fund to absorb the cost of the work done and, after price adjustment, to pass this cost on to its customers at standard prices.

Minor repair or in-storage maintenance and preservation, although a supply administrative expense, may be financed through the stock fund provided recovery of the cost is assured in application of a surcharge to the standard prices.[36]

## Losses

Losses to stock fund material must be forecast in order that they may be recovered by inclusion in a price surcharge. Normal losses might be due to: adjustments of book inventories or of control accounts, to bring them into agreement with physical inventories and stock records respectively; losses on sale or disposal of material including price reduction to effect disposition of slow moving stocks; inventory write-down or losses due to shrinkage, fire, theft, damages, and shortages in transit. It is no easy matter to predict these losses, however it must be done so that surcharges will automatically offset losses as they occur. These losses are normally accounted for as they do occur.

## Expenses

A basic difference between stock fund operations and commercial retail practice is that only certain specific direct expenses are paid from stock funds and thereafter are recovered through the standard price. Expenses charged to stock funds are first destination transportation, major repairs of stock account material, expenses of preparation and sale of surplus, excess, or salvage

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[36] U.S., Department of Defense, Memorandum from Assistant Secretary of Defense to Assistant Secretary of the Army, Navy and Air Force, subject: "Proposed Uniform Report Forms for Stock Fund Operations and Memorandum on Accounting and Budgeting for Stock Funds." (undated).

material. As previously mentioned expenses incurred in preservation and minor repairs may be charged to the stock fund. As a general principle, indirect expenses as well as most direct expenses not mentioned above, are charged to other appropriations.

## Pricing

Much has been written on what should and what should not be included in standard prices. Standard pricing is a difficult and by no means exact science. To reduce the problem to its simplest terms the following elements are included in standard pricing of each item:[37]

1. Current market or production cost of the item.
2. Transportation costs to first point of destination-from contractor or manufacturer to the stock fund supply system.
3. Surcharges to compensate the stock fund for all forseeable net losses and expenses relating to each item.

Standard pricing is of paramount importance in any retail or wholesale operation. It provides uniformity, accuracy, and simplicity in accounting and inventory control functions. Standard pricing techniques are used throughout the Department of Defense. In the Navy, program managers establish prices for standard stock and receiving supply officers establish prices for nonstandard stock. By using standard techniques it is probable that prices in different departments will be comparable, thereby facilitating cross servicing. In addition, material held for different purposes or in different stratification level such as mobilization reserves and operating stocks will be identically priced.

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[37]U.S., Department of Defense, Directive Number 7420.1, op. cit., p. 9.

## Price Reviews

A review of prices is made as frequently as sound business practice mandates, but at least once annually. These reviews have the affect of protecting the capital of the fund against price fluctuation and of stating inventory value in terms of current economic levels. Although standard prices are the goal through price reviews it may be found necessary to vary prices on a regional basis. Price reviews and revisions are costly and time consuming and their frequency is based on criteria established by inventory managers who keep current with fluctuations in market prices. For categories, classes, or items in which there is a heavy investment or price fluctuations are frequent or violent, price reviews and revisions are required accordingly.

## Market Cost

The operation of the stock fund contemplates a "break-even" basis. The use of current market cost as a basis for setting standard prices is in consonance with the "break-even" philosophy in that the full cost, whether greater or less than cost of acquisition, of replacing stock is passed on to the customer.

Another advantage of using market cost is that the method serves to provide a realistic price relationship between similar items and between categories of material.

Current market prices are determined by use of recent procurement documents, current manufacturers price lists, recent procurements of similar items or from other available evidence. The use of market prices simplifies budget preparation for consumers and places cost of stock fund material used in estimating budgets on the same current economic level as other budget estimates.

## Transportation

The cost of transportation to the point the material is received into the supply system is included in stock fund prices. From this point on, intra-departmental transportation costs are borne by appropriations other than the stock fund. Such a system has the advantage of assigning the same price to material whether purchased f.o.b. point of origin or destination. Transportation costs are not always readily available. Therefore they are frequently estimated or apportioned between categories of material contained in the same shipments. Percentage factors based on recorded experience are the normal means for developing these estimated costs.

## Surcharges

A surcharge is included in the standard price for the purpose of providing compensation to the stock fund for all foreseeable losses and expenses. This technique preserves the capital of the fund by passing loss and expense on to the customer. To a degree the use of a surcharge provides a yardstick to measure the effectiveness of supply management control over losses. If effective, budgeting is simplified in that additional funds need not be requested from Congress to cover deficits resulting from losses or expenses.

Foreseeable losses might be pilferage, damage, deterioration, obsolescence, and destruction by fire. Major or extraordinary losses cannot be expected to be covered by heavy surcharges and are properly the subject of an appropriation request for an increase of capital.

## Reduced Prices

In certain instances material may be carried in stock in varying degrees of serviceability. It might be the result of used material returned to the fund, damage to material in store, age of material or other causes for a decline in the

newness of material. Such materials are reduced in price to encourage economy of operations. Normally the price reduction will be the estimated amount necessary to restore the them to a new condition and is properly computed by application of percentage factors to the standard price. The percentage factors have been developed from experience and are assigned according to the condition classification of the material. Condition classifications are identified by assignment of a code to the item. By knowing that a condition code of an item with standard price of $1.00 indicates the item is in fair condition and the percentage of standard price to be applied for items of fair condition is 60%, then the new price for the item would be $.60. Obsolescent items may also be reduced in price to the point where their use is encouraged.

Administrative Expenses

Such expenses are procurement, warehousing, redistribution, repacking and handling are excluded from standard prices and are not financed by the stock fund. This practice keeps the stock fund operation in a neat controllable package more susceptible to Congressional review. Further, the need for cost accounting expenses attributable to the stock fund and those attributable to non-stock fund inventories is aleviated.

The problem of determining what expenses should be included in prices is analagous to the dilemna incident to establishing prices for inventory evaluation purposes. It has often been said that the cost principle is easy to state but difficult to apply. The following exemplifies this dilemma:

> Judgment must be exercised in determining what costs ought to be included and a consistent policy must be followed. It is generally accepted practice to exclude from inventory costs that share of general and administrative expense not clearly related to production. However, exclusion of all overhead charges from inventory costs would not constitute acceptable accounting practice. Then too, abnormal costs of various nature may be of such magnitude as to require omission. Some examples are excess spoilage,

rehandling costs and idle facility expense.[38]

### Variances

An unfamiliar term up to this point, variance is merely the difference between the standard stock price and the actual costs of materials, supplies, and equipment recorded when Navy Stock Fund purchases are received and recorded at standard prices. Price variances are recorded to show the following accounts separately: (1) surcharges for transportation; (2) surcharges for losses, adjustments, and expenses; (3) surcharge for repair and preservation of stock; (4) standard price increases due to reclassification or condition; (5) revision of standard prices; and (6) purchase cost variances.[39]

### Returns of Materials, Supplies, and Equipment

Materials, supplies, and equipment returned to the Navy Stock Account for various reasons are charged to that account and credited to the appropriation concerned in an amount based on the standard price and an allowance for condition of the materials. Excepted from this procedure are capitalized inventories and receipts of materials which cannot be related to any appropriation for credit purposes.

### Stock Sales, Issues, Transfers and Reimbursements

Normally no stock fund material is issued, sold, or transferred unless the fund is reimbursed. This reimbursement takes the form of monthly accounting adjustments discussed in Chapter IV. In order to prevent expansion of inventories of stock fund material not under the control of the Navy Stock Fund issues are limited to estimated current needs. Typical of this situation are the

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[38]J. B. Heckert and J. D. Wilson, Controllership, The Work of the Accounting Executive, (New York: Renald Press Co., 1952), p. 253.

[39]U.S., Department of Defense, Directive Number 7420.1, op. cit., p. 19.

stocks of material carried in the storerooms of vessels other than stores supply ships. These materials have been issued from the Navy Stock Account with a charge to the operating allotments of ships and consist of stock levels established by fleet logistics plans.

Transfers to the Industrial Fund are on a reimbursable basis. However, transfers to and from the Navy Stock Account and Appropriations Purchases Account of material properly carried in the account to which it is being transferred is generally on a non-reimbursable basis.

New categories of materials transferred to the Navy Stock Account are capitalized in that account without reimbursement to the appropriation initially financing the purchase. There are exceptions to this procedure in which withdrawal credits may be established to the credit of an appropriation which has transferred material provided that appropriation is financially strapped by the loss of the material to the extent of being unable to carry on budgeted programs. The need for resorting to this procedure in the Navy has been negated because transfers have been for the most part so scheduled that execution date for a transfer was far enough in the future to permit inclusion of forecasted requirements in the budget for the fiscal year in which the transfer was scheduled.

Transfers of Navy Stock Account material between accountable supply officers who render Navy Stock Account Balance Sheets are not reimbursable because the material never leaves the stock account. Rather, there is a transfer of accountability reflected in the stores returns of both supply officers.

Disposition of Excess Property and Sales of Salvage and Scrap

Regulations are in effect for disposal of excess materials and for material salvage and scrap. In general other government agencies are given first opportunity to use excess property at a price mutually agreed upon. The stock

fund category concerned is charged for all expenses incident to property disposal and is credited with gross proceeds from sales or transfers.

## Stratification and Fractionation

Stratification is a management tool applies to all stores accounts primarily aimed at segmentary inventories by the purpose for which they are held. Through the stratification of the inventory, stocks on hand are all subject to monetary separation and accounting for actual stocks on hand into: operating stocks; mobilization reserves and excess-economic reserve; contingency reserve; and excess for disposal.

Fractionation is also applied to property in the Navy Stock Account. Identification of stock is accomplished through stock numbers. Included as a part of the code prefixed to a Federal Stock Number is a fraction code which indicates the frequency of demand of the item. Fraction codes assigned to materials are prominent in such determinations as stock status reporting frequency or local storage location policies.

## CHAPTER VI

## EFFECTIVENESS AND SUGGESTIONS FOR IMPROVEMENT

Recalling the stated purpose of this paper it was to achieve a better understanding of the Navy Stock Fund. To be sure many things have been left unsaid. For the most part omissions fall in the area of detailed operating policies, methods, and procedures which undergo frequent changes and are not essential to an understanding of the fund concept. We might, however, conclude by analyzing the effectiveness of the Navy Stock Fund and by considering possible areas of improvement.

### Effectiveness

The Navy Stock Fund might be referred to as a government owned purchasing and distributing corporation of supply items with offices all around the world. Congress might be the Board of Directors, the Bureau of Supplies and Accounts the president, and the supply demand control points the plant managers. Each control point is assigned decentralized responsibilities for managing specific categories of material. Funds are furnished them for procurement of stocks. A small portion of these funds are further granted to field supply officers for procurement of nonstandard stocks. Control is exercised by management through periodic financial and fidelity reporting procedures.

Location of most supply demand control points is such that they are strategically scattered in event of enemy attack and are located in appropriate industrial areas. To them the Navy Stock Fund affords a convenient method of purchasing, wholesale distribution, and reimbursable retail issue of items in

common use by naval forces around the globe. The funds of the Navy Stock Fund are utilized for procurement of materials which are distributed to wholesale and retail representatives of control points throughout the naval establishment. Issues on a cost plus expense basis are made with financial adjustments which reimburse the fund. Although a balance sheet and profit and loss techniques have been adopted the objective of management is to achieve a "zero" profit.

## General Evaluation

How effective has the fund been? Any answer less than "most gratifying" would not do the fund justice. The Navy Stock Fund has already survived the tumultuous periods of three wars and has been "pronounced by many to be a remarkable success."[40] A subcommittee of the Committee on Government Operations was "generally impressed with the stock-fund system for financing and managing inventories of common-use standard-stock items."[41]

## Economy and Efficiency

Use of the Navy Stock Fund has caused stressing accurate and effective procurement to prevent dollars being tied up in useless inventories. Although not strictly on our subject, the experience of the Air Force in setting up a Clothing Division of the Air Force Stock Fund is typical of the economy and efficiency afforded by use of the Navy Stock Fund. On the assumption that sales for Fiscal Year 1953 would be $210 million it was planned to purchase $400 million in clothing to augment stock. Stock Fund reports proved on the basis of past issues that this estimate was out of line. Actual sales proved to be only about $60 million. Consequently the Air Force is now going through the same process as is the Navy. Stock Fund sales each year are greater than expenditures.

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[40] U.S., Congress, Military Supply Management, Third Intermediate Report of the Committee on Government Operations, July 16, 1953, (Washington: Government Printing Office), p. 15.

[41] Ibid., p. 5.

Relating to the Air Force and Navy operation of holding new procurement down lower than expenditures, stock funds are offering economy through reduced maintenance costs for warehousing, handling, preservation and other overhead expenses.

## Performance Budget

One of the most important requirements of the performance type budget envisioned under Title IV is that expenses of operation for any program be kept current with those operations. Without the stock fund we have seen that inventory procurement has very limited relationship to immediate needs. A cost of material is lodged against allotments as soon as procurement has been consummated even though that material may be intended for use 18 months hence. However, use of the stock fund permits holding of the material in trust until the very day its use is desired. Thus the performance budget concept will not be effective unless broad use is made of working capital funds.[43] In the Navy use of the Navy Stock Fund and the Navy Industrial Fund are rapidly expanding in coverage thereby adding more meaning to the budgetary process.

## Congressional Control

Bearing a close relationship to the advantages afforded the performance budget idea, is the added Congressional control the stock fund provides. Congress reviews separate appropriations for stock funds and for maintenance and operations. Stock fund appropriations are based upon stock level requirements while maintenance and operation appropriations are based upon cost of consumption. Thus an added measure of control and one in keeping with the performance budget concept is provided. If appropriations were made only for procurements for immediate use or for stocking in the Appropriation Purchases Account such

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[42] U.S. Congress, Senate, Implementation of Title IV, op. cit., p. 27

[43] Ibid, p. 85.

dual control would not exist.

## Stock Levels

The stock fund has allowed flexibility in the Navy in its ability to maintain stock level positions based on forecasted requirements irrespective of the fiscal year or availability of appropriated funds. (The apportionment process does impose a restrictive element, however.) Since purchases are not charged to operating appropriations, overstocking and understocking is avoided as long as good inventory control principles are adhered to. This observation is attested to by the annual situation where purchases are exceeded by sales.

## Savings

It is difficult to assess the value of the stock fund with respect to savings realized as a result of its use. However, the saving potential becomes apparent in considering that when items are transferred to the stock account these items were normally carried in several different categories of material and duplicate controls were effected by the several inventory managers, in the Appropriation Purchases Account. Except under unusual conditions it is reasonable to deduct that elimination of duplication and overlapping of supply function does result in savings. A psychological effect also plays a part in savings. Customers and stock fund managers bear a buyer-seller relationship. Customers of Appropriation Purchases Account material are not particularly interested in cost because the material has been paid for. In drawing materials from the Navy Stock Account the customer has a real awareness of the price tag. Each withdrawal will result in a charge to an operating allotment. Thus the fund has engendered a "cost consciousness" attitude and has led to savings by requiring maximum use of material to prevent an excess material cost.

[illegible] control would not exist.

Floor Levels

The block mod 10 allowed flexibility in the [illegible] to satisfy [illegible] block level positions based on [illegible] requirements [illegible] of this floor per se availability of [illegible] floors. [illegible] process does impose a restrictive element, however.) Since provisions are [illegible] designed to [illegible] expansion, [illegible] and [illegible] is [illegible] as load or [illegible] control [illegible] are achieved. [illegible] is effected by [illegible] [illegible].

Service

It is difficult to assess the value of the stock item add, request or service realized as a result of its use. However, the saving [illegible] apparent in considering that when items are transferred to the stock account those items were normally carried in several different categories of material and duplicate controls were effected by the several inventory accounts. In the Appropriation Purchase Account, [illegible] under [illegible] it is [illegible] able to combat the [illegible] duplication and overlapping of nearly [illegible] duplicate records in warehouse. A considerable effort [illegible] [illegible] vice. Purchase and stock [illegible] [illegible]. [illegible] tomers or [illegible] [illegible] [illegible]

## Suggestions for Improvement

### Expansion

We have observed in Chapter III those categories of material carried in or being contemplated for transfer to the stock fund. Aeronautical, Special Training Devices and Ordnance materials are stock fund type materials still financed by other appropriations. Dollarwise the largest of these categories is the aeronautical category to which this discussion will be limited. Material considered as potential stock fund material are those types fitting the criteria set forth in Chapter III. Generally they are of a consumable nature. It has not as yet been contemplated to put capital items or items that were not strictly standard commercial consumption type items, into the stock funds. [44]

In announcing the transfer of certain General purpose Forms and Publications to the stock fund and the planned transfer of initial stocks or additional stocks of photographic, ships, submarine, and automotive repair parts to the stock fund the Navy Comptroller announced that "the program is in implementation of the principle to carry most stocks of a replenishable nature ultimately in the Navy Stock Fund."[45]

The question prompted by the above quotation is "what do we mean by 'most stocks'". This could mean exclusion of aviation materials and perhaps is specifically directed at aviation materials because this has been a highly explosive subject in many Navy circles.

Transfers of material to the stock fund are made with the objective of increasing economy and efficiency. These transfers will eliminate unnecessary

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[44] U.S., Congress, Implementation Title IV, op. cit., p. 127.

[45] U.S., Department of the Navy, Navy Comptroller Briefs, NAVEXOS P1360, Vol. II, No. 10 (Oct.-Nov., 1955), p. 3.

## Suggestions for Improvement

### Introduction

We have observed in Chapter III three categories of material control in the existing contractual for transfer to the armed forces. Unrevised, Limited Existing Services and Obsolete Materials are three main types of materials issued by other supervisions. Following the Table of Issue materials in the aforementioned category is going this discussion will be limited. Material considered as personal goods that material are those types falling the materials are dealt in Chapter III. Generally they are of a consumable nature. It has not as yet been conceptualized to put capital items or items that were not already authorized conventional conveyance type items, into the issue items. [1]

In connection the transfer of certain designated persons items and furnishings to the public and the planned transfer of Red Cross and additional assets of furnishings, fixtures, equipment, and automotive repair parts to the other than the Army Corporation Unit the practice is implementation of the practice to carry more goods at a replacement issues although in the Navy Corps Regs.[2]

The question brought by the above discussion is "what is meant by these items?". This could mean retention or relation materials or records in excess Directed at existing material Bureau into a highly replaceable only at an army depot.

Centers of interest in the stock that are mean with the objective of increasing turnover and efficiency. Three procedures will eliminate unnecessary

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[1] Cf., Courtney, Logistic Data Tr, op. cit., p. 147.

[2] Cf., Department of the Navy, Navy Procurement Circular, Number 1194, Vol. III, No. 240 (Oct.-Dec., 1952), p. 7.

duplication of items, reduce the overall investment in Navy inventories, maximize utilization of material, facilitate standardization, improve industry-military relationships, and reduce the administrative wastes generated by unnecessary multiple management of material.[46] I would say that because of the nature of the materials involved that this philosophy applies to ordnance and special training materials as equally as it does to ships' repair and electronics parts, but perhaps aviation is in a peculiar class of its own.

During the past several years, the Bureau of Aeronautics, the technical bureau concerned, and the Aviation Supply Office, the inventory manager, has pursued an active policy of transferring general stores and electronic type materials to appropriate inventory managers. Materials transferred have been those in common use or susceptible to common use within the Navy. However, other general materials known as "general aeronautical materials" and electronics materials which are of such a nature that they are peculiar to the aeronautical program only have not been transferred. Since these materials are generally in common use among aeronautical activitities and even among several specific aircraft programs it is perhaps appropriate that a stock fund segment be sponsored at the Aviation Supply Office for these materials. The problem goes even further, however, for the bulk of aeronautical materials in quantity and value are accessories, airframes and ordnance items which are outside the common electronics or multi-use general aeronautic categories. Since items falling in these areas are usually limited in their use to a specific aircraft program it does not appear desirable to transfer them to the stock fund.

There are many arguments for and against transfers of aeronautical mat-

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[46] U.S., Department of the Navy, Navy Comptroller Instruction 7100.24, 11 March 1954, Subject: "Material Cognizance Transfers; financial policy governing.

erials to the stock fund. Pros and cons seem to be fairly well in balance. The magnitude of the problem prevents thorough consideration, however one factor which the writer believes to be the major factor in reaching a decision will be briefly treated.

The military aeronautical program including the guided missile programs, shared by both aviation and ordnance, are plagued with design changes as is no other military program. True, daily changes occur in the electronics equipments, however, changes here are primarily in circuitry or components, the parts of which are readily standardized or are already in common-use and commercially available. Aeronautical design changes have the affect of making millions of dollars worth of property obsolete, good only for sale as scrap. Such design changes are daily occurences in the early life of any model aircraft and become less frequent as the operating aircraft is perfected. Since many aircraft assemblies and parts are purchased on the basis of lasting the life of the model and, in order to assure concurrent delivery of aircraft and supporting spare, are ordered before stabilization of the design, losses are considerable when design changes declare parts obsolete. Herein lies a major obstacle to stock fund financing. Can the stock fund sustain these losses or can methods of aeronautical procurements be adjusted to permit effective operation under the more desirable stock fund method of inventory control?

## Shipboard Inventories

It was established in Chapter V that Navy Stock Account material carried on board ships has been issued from the account with charge to the ship's operating allotment. In the past, prior to 1950, these materials were carried in the Navy Stock Account and supply officers rendered stores returns. Under the present system a perpetual inventory is maintained in the records of the

supply officer. There has been considerable discussion in the direction of again returning this material to the stock fund. It appears that the experience of World War II at which time controls of shipboard materials were thrown to the four winds would indicate the inappropriateness of such action. Further, the loss of a vessel would immediately upset the forecasts of expected losses. True, this would be an extra-ordinary loss but for the sake of simplicity the stock fund should not be burdened with such considerations except in the case of stores ships.

## Apportionment

Congress is satisfied with its control of stock funds by adjusting the capital. This, if it were the only control applied, would give the flexibility the name "revolving fund" implies. The Bureau of the Budget deprives the managers of one of the greatest single advantages of the stock fund by requirements that obligational authority will be granted quarterly. Why hog-tie and complicate the fund by this additional control? Obligational authority should be the cash balance of the fund. The apportionment process has succeeded in relegating the stock fund to the historical concept of an annual revolving fund. Procurement of stock account inventory should be independent of fiscal years and appropriation apportionments.

## Obsolescence

Exclusion of items of high potential obsolescence does not appear to be consistent with major objectives of a stock fund. It is true that their inclusion will result in stock fund losses but at the same time the saving derived through stock fund management should overcome those losses. Materials carried in the Appropriation Purchases Account have traditionally received less attention from an economy viewpoint than have items in the Navy Stock Account. Rush

procurements may be made of Appropriation Purchases Materials purely because the fiscal year is coming to a close and appropriations will be terminated. Such a deterrent to good inventory control does not exist in the stock fund, except through the psychological effect the apportionment process might have.

## Conclusion

Regardless of what additional materials may be inducted into the stock fund or what changes might be made, its service to the Navy in the past has been exemplary. It is submitted that the Navy Stock Fund has contributed substantially to economy and efficiency throughout the Navy. The great strides made in recent years in the scope of its coverage and the improved management techniques which have been applied through the use of the fund are a tribute to the wisdom of its Congressional, business, and Department of Defense advocates and those in charge of its management.

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